

Message Text

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ACTION EB-07

INFO OCT-01 AF-06 EUR-12 EA-06 ISO-00 XMB-02 FEA-01

ERDA-05 AID-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00

FPC-01 H-02 INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01

PM-03 USIA-06 SAM-01 OES-03 SP-02 SS-15 STR-04

TRSE-00 FRB-03 AGR-05 /113 W
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R 280715Z MAY 75

FM AMEMBASSY JAKARTA
TO SECSTATE WASHDC 8396
INFO AMEMBASSY BONN
AMCONSUL HONG KONG
AMEMBASSY LONDON
AMEMBASSY OUAGADOUGOU
AMEMBASSY PARIS
AMEMBASSY SINGAPORE
AMEMBASSY TOKYO
AMCONSUL MEDAN
AMCONSUL SURABAYA

C O N F I D E N T I A L SECTION 1 OF 2 JAKARTA 6408

HONG KONG FOR TREASURY REPRESENTATIVE
DEPARTMENT PASS TREASURY FOR COMPTROLLER OF CURRENCY
DEPARTMENT PASS FEDERAL RESERVE BOARD FOR BANK EXAMINATION
BOARD

EO 11652: GDS
TAGS: EFIN ENRG EALR ID
SUBJ: ENERGY: GOI/PERTAMINA PROGRESS IN RESOLVING
FINANCIAL DIFFICULTIES

REF: A. JAKARTA 4949 AND PREVIOUS B. HAGUE 2437 (NOTAL)

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1. SUMMARY: BEGINNING IN MID-APRIL, PRESIDENT SUHARTO ISSUED SERIES OF DECREES TO ESTABLISH GOVERNMENT COMMITTEES TO REVIEW AND RECOMMEND ON VARIOUS ASPECTS OF PERTAMINA ACTIVITIES AND TO SET GROUND RULES ON PERTAMINA FINANCIAL ARRANGEMENTS. IN A RELATED SERIES OF DECISIONS PERTAMINA RECENTLY ANNOUNCED IT HAS: RE-ESTABLISHED BUDGET COMMITTEE, TRANSFERRED SOME PERSONNEL; IMPLEMENTED LIMITED REORGANIZATION; RE-ESTABLISHED AUDIT GROUP; ISSUED 1973 ANNUAL REPORT WHICH INCLUDES FINANCIAL STATEMENTS PREPARED WITH ASSISTANCE ARTHUR YOUNG ASSOCIATED; AND, GOI/PERTAMINA ANNOUNCED APPOINTMENT ARTHUR YOUNG AS ACCOUNTING ADVISOR TO PERTAMINA TO VERIFY PERTAMINA'S 1974 ACCOUNTS. THESE DEVELOPMENTS REFLECT CONTINUED PROGRESS IN RATIONALIZING PERTAMINA'S FINANCIAL SITUATION. END SUMMARY

2. FOLLOWING MESSAGE FOCUSES ON RECENT PERTAMINA DECISIONS. IT SHOULD BE READ AGAINST BACKGROUND OF 8 DECREES WHICH PRESIDENT SUHARTO ISSUED BEGINNING IN MID-APRIL CONCERNING PERTAMINA. THESE DECREES ESTABLISHED SEVERAL GOI SUPERVISORY COMMITTEES COMPOSED PARTIALLY OF TOP MILITARY OFFICIALS AND PARTIALLY OF HIGH LEVEL MINISTRY OFFICIALS, TO REVIEW AND MAKE RECOMMENDATIONS AND DECISIONS ON (1) OVERALL BUDGET FINANCE AND COORDINATION--GENERALS HASNAN HABIB, (HANKAM CHIEF OF STAFF, GENERAL AFFAIRS) ISMAEL SALEH DEPUTY STATE SECRETARY AND PIET HARYONO, DIRECTOR GENERAL OF BUDGET, MOF; (2) KRAKATAU STEEL PROJECT(MINISTER SUMARLIN); (3) LOADING FERTILIZER PLANT--GEN AUGUS SUYONO, DIRECTOR GENERAL OF CHEMICAL INDUSTRIES, (4) LNG--ADM SLAMET, (IG) INSPECTOR GENERAL, DEPARTMENT OF MINING; (5) CILACAP REFINERY(IR WIYARSO, DIR MIGAS). ADDITIONAL DECREES SET GUIDELINES ON PERTAMINA FINANCIAL ARRANGEMENTS, ON WHICH GENERAL IBNU AND BANK INDONESIA GOVERNOR RACHMAT SALEH CONCLUDED AGREEMENT LAST WEEK. AGAINST THIS BACKGROUND OF PRESIDENTIAL DECISIONS, PERTAMINA HAS RECENTLY MADE THE FOLLOWING CHANGES: END CONFIDENTIAL BEGIN UNCLASSIFIED

3. BUDGET COMMITTEE: IN LATE APRIL PRESS REPORTED PERTAMINA BOARD OF DIRECTORS (PBOD) DECISIONS NO 1056/1975 EFFECTIVE APRIL 26, RE-ESTABLISHING BUDGET COMMITTEE (BC) RESPONSIBLE FOR PREPARING AND IMPLEMENTING BUDGET AS DECIDED
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BY PERTAMINA'S PRESIDENT DIRECTOR (GEN IBNU). BC IS STAFFED AS FOLLOWS:

1) CHAIRMAN: IR ANONDO, DIRECTOR FOR ADMINISTRATION AND FINANCE; 2) VICE CHAIRMAN: COL SOEDIJONO, CHIEF MATERIALS PURCHASING DIVISION; 3) MEMBERS: ALL DIRECTORS DIVISION CHIEFS AND OTHER OFFICIALS APPOINTED BY THE PRESIDENT DIRECTOR. THE SECRETARIAT, RESPONSIBLE FOR DAY TO DAY OPERATIONS IS COMPOSED OF (1) SECRETARY-

R SUHARDI PRAWIRONOTO, CHIEF PERSONNEL DIVISION; (2)
MEMBERS-JOHN ABDI(ASST DIRECTOR FOR FINANCE) AND
DRS S B PULUGAN (FINANCE DIRECTORATE).

4. PERSONNEL SHIFTS: ON MAY 23 PRESS REPORTED PBOD
DECISION NO KPTS/DP/169/V/75 IMPLEMENTING FOLLOWING
PERSONNEL CHANGES EFFECTIVE MAY 5.

A. H A THAHER FORMERLY GENERAL ASSISTANT TO PBNU
SUTOWO, TO BECOME PRESIDENT DIRECTOR OF P T PATRA JASA
(PERTAMINA SUBSIDIARY FOR REAL ESTATE OPERATIONS).

B. COL SJARNUBI SAID, FORMERLY CHIEF OF MAINTENANCE
DIVISION, TO BE CHIEF OF TEAM FOR CONTROL AND ORDERING
PERSONNEL(TP3).

C. IR MULADI, FORMERLY DEPUTY CHIEF, TO BECOME
ACTING CHIEF OF MAINTENANCE DIVISION.

D. COL SASMITA, FORMERLY COORDINATOR OF ADMINISTRATION
OF GENERAL ASSISTANTS TO PRESIDENT DIRECTOR, TO BECOME
STAFF MEMBER TO PRESIDENT DIRECTOR.

E. DRS H SAKIDJAN ATMOSUDIGDO, FORMERLY CHIEF OF
DEVELOPMENT AND INFORMATION CENTER DIVISION, TO BECOME
DIRECTOR OF P T PERTAMINA GULF INDUSTRIAL PROCESSING
(PERTAMINA SUBSIDIARY FOR FERTILIZER BAGGING).

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ACTION EB-07

INFO OCT-01 AF-06 EUR-12 EA-06 ISO-00 FEA-01 ERDA-05

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C O N F I D E N T I A L SECTION 2 OF 2 JAKARTA 6408

F. DRS M J NIZAR, FORMERLY CHIEF OF MANAGEMENT SERVICES DIVISION, TO BECOME CHIEF OF NEWLY CREATED MANAGEMENT AND INFORMATION SERVICE DIVISION, A MERGER (SEE PARA 5) OF MANAGEMENT SERVICES DIVISION DEVELOPMENT AND INFORMATION CENTER DIVISION, AND OPERATIONS ROOM MANAGEMENT DIVISION.

5. REORGANIZATION: PBOD DECISION NO 1111/KPTS/DR/DU/1975 ANNOUNCED MAY 23 ESTABLISHED NEW MANAGEMENT AND INFORMATION SERVICES DIVISION AND ABOLISHED DEVELOPMENT AND INFORMATION SERVICE DIVISION AND OPERATIONS ROOM MANAGEMENT DIVISION. SAME DECISION CHANGED NAME OF SECURITY DIVISION TO CORPORATION SAFEGUARDING SERVICE
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DIVISION, ABOLISHED OFFICE OF GENERAL ASSISTANT AND GENERAL SECRETARIAT WHICH WERE INTEGRATED INTO MAINTENANCE DIVISION.

6. AUDIT GROUP: PBOD DECISION NO 1110/KPTS/DR/DU/1975 ANNOUNCED MAY 23, REESTABLISHED AUDIT GROUP, WITHIN THE FINANCE AND ADMINISTRATION DIRECTORATE. CHIEF OF THE AUDIT GROUP NOT YET NAMED IS RESPONSIBLE TO DIRECTOR FOR FINANCE AND ADMINISTRATION.

7. ANNUAL REPORT: IN EARLY APRIL PERTAMINA RELEASED ENGLISH TEXT OF 1973 ANNUAL REPORT WHICH CONTAINS FINANCIAL STATEMENTS (1972, 1973 AND SOME PROVISIONAL FIGURES FOR FIRST HALF 1974), WITH NOTES, SURVEY AND SUMMARY OF ACTIVITIES, OIL STATISTICS AND INFORMATION ON PERTAMINA'S ORGANIZATION. PRESIDENT DIRECTOR'S FOREWORD NOTED "THE ACCOUNTING FIRM OF ARTHUR YOUNG AND COMPANY (NY) HAS CONSULTED WITH AND ADVISED PERTAMINA AS TO THE ACCOUNTING PRACTICES FOLLOWED IN THE PREPARATION OF THESE FINANCIAL STATEMENTS; HOWEVER, THEY HAVE NOT EXAMINED SUCH STATEMENTS IN ACCORDANCE WITH GENERALLY ACCEPTED AUDITING STANDARDS."

8. ACCOUNTING ADVISER: ON MAY 24 PRESS REPORTED THAT PERTAMINA'S BOARD OF COMMISSIONERS COMPOSED OF FIVE MINISTERS APPOINTED ARTHUR YOUNG AND COMPANY AS ACCOUNTING AND CONSULTING

ADVISER TO PERTAMINA. REPORT MENTIONED "ARTHUR YOUNG IS ALSO ASSIGNED TO CONDUCT VERIFICATION AND BOOKING OF ALL TRANSACTIONS CONCLUDED BY PERTAMINA LAST YEAR. PERTAMINA PRESIDENT DIRECTOR IBNU SUTOWO HAS INSTRUCTED ALL DIRECTORS AND CHIEFS OF DIVISIONS WITHIN PERTAMINA TO HELP THE COMPANY (ARTHUR YOUNG) IN EXECUTING ITS TASKS."
END UNCLASSIFIED BEGIN CONFIDENTIAL

9. COMMENT. VARIOUS PERTAMINA DECISIONS REPORTED ABOVE REPRESENT ATTEMPT BY GENERAL IBNU TO PUT HIS HOUSE IN ORDER AS RESULT OF FINANCIAL DIFFICULTIES. ALL PERSONNEL CHANGES WERE WELCOMED BOTH WITHIN AND WITHOUT PERTAMINA. SHIFT OF THAHER, SASMITA, AND SJARNOEBI OUT OF KEY STAFF POSITIONS REPRESENTS FIRST MAJOR STEP IN REMOVING PRINCIPAL ABUSERS OF POWER AND POSITION. MOST OBSERVERS BELIEVE
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THESE OFFICIALS WILL PROBABLY RETIRE QUIETLY WITHIN NEXT YEAR. LIKEWISE, PROMOTION OF MULADI, REESTABLISHMENT OF BUDGET COMMITTEE AND AUDIT GROUP, APPOINTMENT OF SAKIDJAN AND MERGER OF MANAGEMENT SERVICES AND INFORMATION DIVISION UNDER NIZAR REFLECT BASIC CHANGES INVOLVING PERTAMINA OFFICIALS WHO ARE WIDELY RESPECTED. WE UNDERSTAND MAJOR GENERAL SOEHANTO, PRESENTLY DEPT OF DEFENSE (HANKAM) FINANCE OFFICER, WILL BE NAMED CHIEF OF AUDIT GROUP. PUBLICATION OF ANNUAL REPORT WITH FINANCIALS MARKS IMPORTANT STEP TOWARD RATIONALIZING PERTAMINA'S FINANCIAL OPERATIONS. ON ORDERS FROM GENERAL IBNU, ARTHUR YOUNG TEAM, WHICH HAS BEEN WORKING WITH PERTAMINA FOR ABOUT ONE AND A HALF YEARS, HAS BEEN INCREASED TO SEVEN. FORMAL APPOINTMENT OF ARTHUR YOUNG BY PERTAMINA AND PERTAMINA'S BOARD OF COMMISSIONERS, WITH FULL PUBLIC SUPPORT OF GENERAL IBNU, SHOULD RESULT IN FURTHER IMPROVEMENT PERTAMINA'S ACCOUNTING SYSTEM. WE UNDERSTAND ARTHUR YOUNG WILL UNDERTAKE LIMITED VERIFICATION PERTAMINA'S 1974 FINANCIALS AND WILL DO FULL SCALE AUDIT 1975 BALANCE SHEET. BASED ON 1975 BALANCE SHEET AUDIT, ARTHUR YOUNG WILL GIVE "OPINION" ON PERTAMINA 1976 INCOME STATEMENT.

10. ACCORDING TO SOURCE CLOSE TO GENERAL IBNU, IBNU IS CONSIDERING SELECTING EXECUTIVE ASSISTANT TO ACT AS ALTER-EGO. IN RESPONSE TO HYPOTHETICAL QUESTION CONCERNING LIKELY SUCCESSOR TO IBNU, SOURCE SAID IBNU RESPONDED THAT, AS OF NOW, LOGICAL CHOICE WOULD BE EITHER IR WIJARSO (PRESENTLY GOI DIRECTOR OIL AND GAS) OR COL SOEDARNO (DIRECTOR FOR REFINING AND PETROCHEMICALS) OF TWO, IBNU SAID ONE OF WIJARSO'S GREATEST STRENGTHS WAS ABILITY TO SAY "NO" WHILE SOEDARNO'S PERSONALITY WAS BETTER SUITED TO THE JOB. NEWSOM

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To: STATE
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